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UNCLAS SECTION 01 OF 02 KUALA LUMPUR 000575

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SUBJECT: PETRONAS ON CASPIAN GAS; PM ABDULLAH TO VISIT KABUL

REF: ASHGABAT 309

¶1. (U) Summary: Petronas, CEO Tan Sri Hassan Merican said Malaysia's national oil company has not yet decided on an export route for Livanov gas and is willing to consider all possible export routes for Caspian oil and gas, including a westward one. In response to PDAS Mann's suggestion that gas extracted from the Livanov field in the Caspian Sea could be connected to an existing Azeri pipeline only 80 km away, Merican agreed it could be a realistic option even though the volume would be small. Petronas currently is considering its long-term investments in the region and Merican expects key decisions to be made by this summer. He acknowledged the potential for new opportunities under Turkmenistan's new President Berdymukhamedov, and he plans to travel to Ashgabat next month. In a separate meeting, Husni Zai, MFA Under Secretary for East and South Asian Affairs, told Mann that

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Prime Minister Abdullah Badawi would attend an upcoming conference in Kabul on public-private partnerships for Afghan reconstruction and development.

A new Caspian landscape

¶2. (U) The Ambassador, SCA PDAS Steve Mann, and econoff met with Petronas CEO Tan Sri Hassan Merican March 22 to discuss Caspian oil and gas. Petronas is a major player in Turkmenistan with a 25-year production sharing agreement signed in 1996 to develop the offshore Block 1 (Livanov) in the Caspian Sea, and is looking at expanding its investments in the country (reftel).

¶3. (U) PDAS Mann outlined three new developments affecting Caspian gas production, including 1) increasing demand coupled with decreasing indigenous production in Europe; 2) tougher re-centralization efforts by Russia over the past nine months including Gazprom targeting foreign upstream investments as well as midstream; and 3) a new President of Turkmenistan with a stated interest in working with Azerbaijan -- possibly opening a new route for Caspian gas that would compete with Russian monopoly Gazprom.

Development, not gas

14. (U) Mann explained that the U.S. was interested in promoting Turkmenistan's energy diversification, which would attract foreign investment and help foster a stable investment climate and reliable export markets. Turkmenistan's GDP dropped 90 per cent in 1997 due to a dispute with Gazprom, he said. Mann pointed out that no Turkmen gas was destined for U.S. markets; rather, the U.S. simply does not want Turkmenistan to become a failed state but rather would like to see the country develop. He described earlier U.S. successes as a catalyst and as a neutral broker, offering support and technology to both sides as with the BTC line, and offered to assist Petronas in developing a diversity of export routes for Turkmen gas. He requested a designated point of contact on Caspian energy issues, and Merican agreed to designate a Petronas official to act in that capacity.

15. (U) Merican acknowledged the changing landscape under the new Turkmen President, and said Petronas had made no final decision on gas transit issues in the region. He hoped to meet President Berdymukhamedov next month and expected key decisions to be made by this summer. He also pointed out that Petronas simply sold the gas to the Turkmen government, which must determine how to re-sell it, but that exporting gas northward would require "new facilities." He observed that Petronas has decided not to operate in Kazakhstan, after many difficulties and delays in that country.

16. (U) After a discussion of existing pipeline capacities and potential routes, Merican nodded thoughtfully to Mann's observation that Petronas' Livanov field could link to existing Azeri production pipelines only 80 km away, responding, "not much volume, but not bad."

17. (U) Comment: We have been seeking a meeting with Petronas

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officials since October, but to no avail until recently. Post can only speculate why Merican agreed to meet at this time, but it is possible that Gazprom's heavy-handed actions on Sakhalin II and other ways have piqued his interest in alternative transportation routes. He also may have been seeking insight into political developments in Turkmenistan following the death of former-President Niyazov.

PM Abdullah to Visit Afghanistan

18. (SBU) In an earlier meeting at the Ministry of Foreign Affairs, Mann expressed his appreciation for Malaysia's support to Afghanistan and Sri Lanka. Husni Zai, Under Secretary for East and South Asian Affairs, expressed a

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willingness to share Malaysia's experience and mentioned assistance being provided through Mercy Corps Malaysia. He said the Taliban were taking advantage of the people, preventing reconstruction assistance from reaching the public. Husni said last year Afghan FM Abdullah attended a seminar in Malaysia on business opportunities, but that the poor security situation in Afghanistan prevented any serious business cooperation between the two countries. Lack of security was the main factor hampering business cooperation, he said.

19. (SBU) Husni said Prime Minister Abdullah Badawi would attend an upcoming conference in Kabul on building public private partnerships for Afghan reconstruction, but said much preparation still needed to be done, especially since Malaysia has no embassy there. Mann suggested that the Malaysians contact the U.S. embassy in Kabul for logistical information. We could not assist directly but would be pleased to share our experience.

¶10. (U) Comment: Husni,s attitude suggested that Malaysia was ready to consider stepping up its assistance, especially where other Muslims were involved. He focused on Malaysia's assistance to "Muslims caught in the middle" in Sri Lanka, highlighting Malaysia's efforts to rebuild a Muslim community there after the December 2004 tsunami. Encouraging Muslim countries like Afghanistan to request assistance from Malaysia directly could yield positive results.

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